



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Audit Committee

DATE: November 16, 2022

TITLE: Review Audit Results and Approve Release of Audited Financial Statements and Federal Student Financial Aid Audit

Proposed New Policy or Amendment to Existing Policy

Approvals Required by Policy

Other Approvals

Monitoring/Compliance

Information

PRESENTERS

Amy Jorgenson, Chief Audit Officer
Bill Maki, Vice Chancellor for Finance and Facilities
Don Loberg, Managing Principal with CliftonLarsonAllen, LLP
Chris Knopik, Principal with CliftonLarsonAllen, LLP
Brenda Scherer, Signing Director with CliftonLarsonAllen, LLP

BACKGROUND INFORMATION

Board Policy 1A.2, part 5, subpart E requires the audit committee to “review and discuss the results of each audit engagement with the independent auditor and management prior to recommending that the board release the audited financial statements.”

FINANCIAL STATEMENTS

CliftonLarsonAllen, LLP (CLA) has audited the following financial statements as of and for the years ended June 30, 2022 and 2021:

- Systemwide
- Revenue Fund
- Itasca Community College Student Housing Funds, Itasca Hall and Wenger Hall

Copies of the audited financial statements were provided to members of the audit committee for review prior to the November committee meeting. Public copies of reports will be available on Minnesota State’s financial reporting website.

STUDENT FINANCIAL AID AUDIT

CLA is in the process of conducting, as required, a compliance audit of Minnesota State’s federal student financial aid programs for the year ended June 30, 2022. While auditors have completed most of its work, including the audit work it traditionally performs each year, CLA

still needs to conduct its audit work related to federal Coronavirus Higher Education Emergency Relief Funds (HEERF). CLA will report the final audit results once completed.

Minnesota State's 2022 Schedule of Expenditures of Federal Awards Report for the Year Ended June 30, 2022 is being prepared by CLA as part of its responsibilities as the system auditor for Minnesota State. The results of this report will be incorporated into the State of Minnesota's Single Audit report that will be released in late March and available on the Minnesota Management and Budget website. Copies of the State of Minnesota's Single Audit report will also be available on Minnesota State's financial reporting website.

RECOMMENDED COMMITTEE MOTION

The Audit Committee has reviewed the fiscal year 2022 audited financial statements and discussed them with representatives of management and Minnesota State's external auditing firm. The committee recommends that the Board of Trustees approves the release of the fiscal year 2022 audited financial statements as submitted.

RECOMMENDED BOARD MOTION

Based on the review and recommendation of the Audit Committee, the Board of Trustees approves the release of the fiscal year 2022 audited financial statements as submitted.

Date Presented to the Audit Committee: 11/16/22

Date Presented to the Board of Trustees: 11/16/22

Date of Implementation: 11/16/22



We'll get you there.

Minnesota State Colleges and Universities Audit Presentation

Year Ended June 30, 2022

November 2022

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Agenda and Objectives

Scope of Assurance Engagements

Financial Statement Audit Results

Federal Awards Audit Progress

Current Events in Higher Education



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Scope of Assurance Engagements

System-wide
Financial
Statement

IT Procedures
including Top 5

Itasca Student
Housing

Revenue Fund

Student
Financial Aid &
HEERF

Perkins Close
Outs



Financial Statement Audits

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Auditors' Responsibilities



Opine on the Financial Statements as a Whole



Understand Key Financial Internal Controls but not to Opine on the Controls



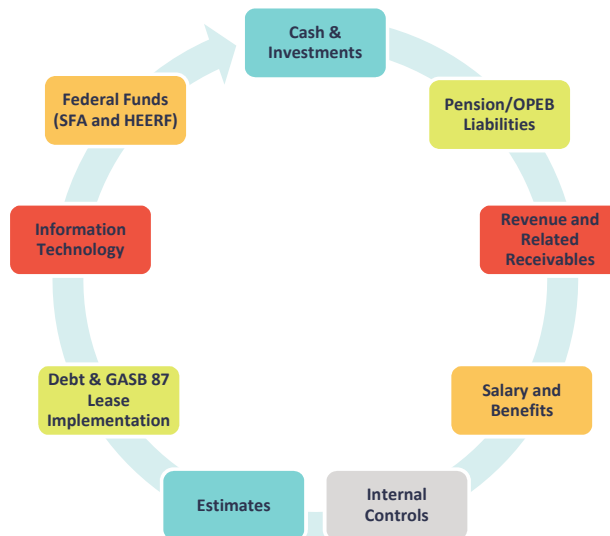
Communicate Significant and/or Material Control Issues Observed During the Audit Process



Communicate with Management any Best Practices or Improvements



Financial Statement Audit Process- Risk Assessment



Audit Results- System-Wide

Adjustments and Results

- No audit adjustments
- No financial reporting deficiencies

Opinion

- Unmodified opinion – financial statements



Audit Results – Individual Audits

Itasca
Student
Housing
&
Revenue
Fund

- Unmodified opinion
- No material weaknesses
- No significant deficiencies



Governance Communication Letter

Overall	Estimates	Difficulties	Other
<ul style="list-style-type: none"> • Purpose is to provide an update on the audit since the planning meeting. • No changes in scope of audit. • GASB 87 implemented in FY22 (Leases) 	<ul style="list-style-type: none"> • Depreciable lives • Allowance for doubtful accounts • Compensated absences • Unearned revenue • Scholarship allowance • Other postemployment benefits liability • Net pension items • Fair value of investments • We are comfortable with management's estimate 	<ul style="list-style-type: none"> • No difficulties encountered • No disagreements encountered • No other findings to report 	<ul style="list-style-type: none"> • No audit adjustments • No uncorrected misstatements • Management representation letter will be signed at conclusion of engagement



Federal Awards Audits

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CLA's Role for Federal Awards

Contracted by Minnesota State to test SFA and HEERF

CLA coordinates with Minnesota State Auditors

Compliance requirements tested under the Uniform Grant Guidance

CLA's report is included in the State's Single Audit

Perkins Close Outs – 6 completed, 4 in progress



Audit Approach - Student Financial Aid

- Rotation of internal control policies and procedures

- Random sample of students selected from ~119,000 students within the system

- Other samples selected (e.g. Reporting, Cash Management, Perkins testing)



Audit Progress - Student Financial Aid

Opinion in process

Testing in progress

- FISAP Reporting
- NSLDS Testing
- Other miscellaneous open items

Results as of today

- No material weaknesses
- No significant deficiencies



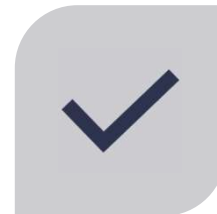
Higher Education Emergency Relief Funds (HEERF)



MN STATE SPENT
APPROXIMATELY \$324M FOR THE
FISCAL YEAR JUNE 30, 2022



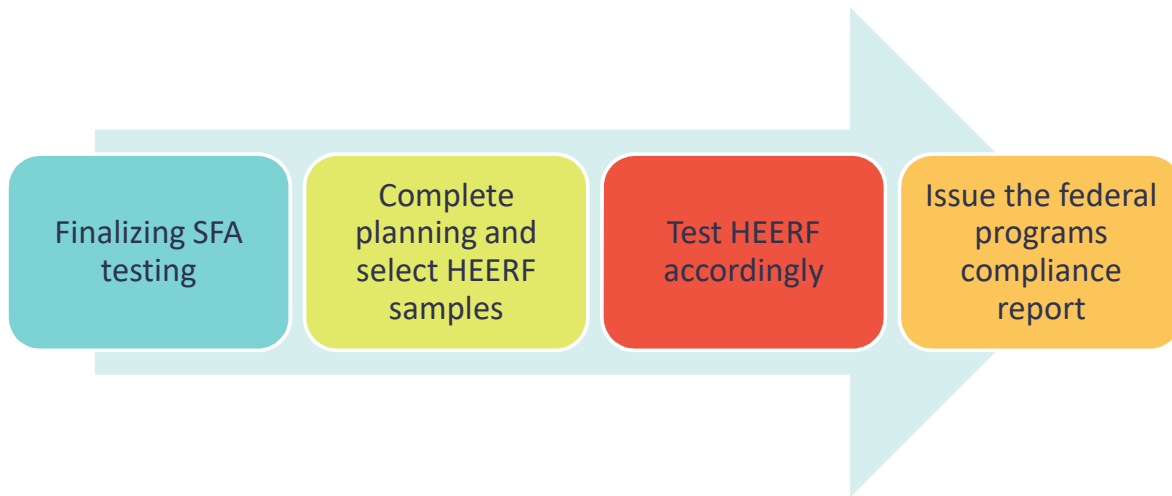
OMB ISSUED COMPLIANCE
SUPPLEMENT IN MAY 2022



TESTING BEGINS IN NOVEMBER
WITH COMPLETION IN FEBRUARY



Concluding the Federal Programs Engagement



Current Events in Higher Education

Forgiveness of student loans

End of Higher Education Emergency Relief Funds

Reduction of institutions

Change in delivery



Questions and Feedback

We welcome any questions pertaining to the audit, governance communication letter, management letter or other matters related to the engagement

We appreciate the opportunity to serve as the auditors for the Minnesota State Colleges and Universities system and welcome any feedback relative to our performance



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NOVEMBER 16, 2022

FY2022 and FY2021 Audited Financial Statement Results

**Board of Trustees
Audit Committee Meeting**

PRESENTATION OVERVIEW

- Summary of Minnesota State FY2022 and FY2021 results
- Impact of Higher Education Emergency Relief Funds (HEERF) on FY2022 results
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* impacts on financial reporting
- Excluding the effects of GASB 68 & 75, Minnesota State FY2022 and FY2021 results*

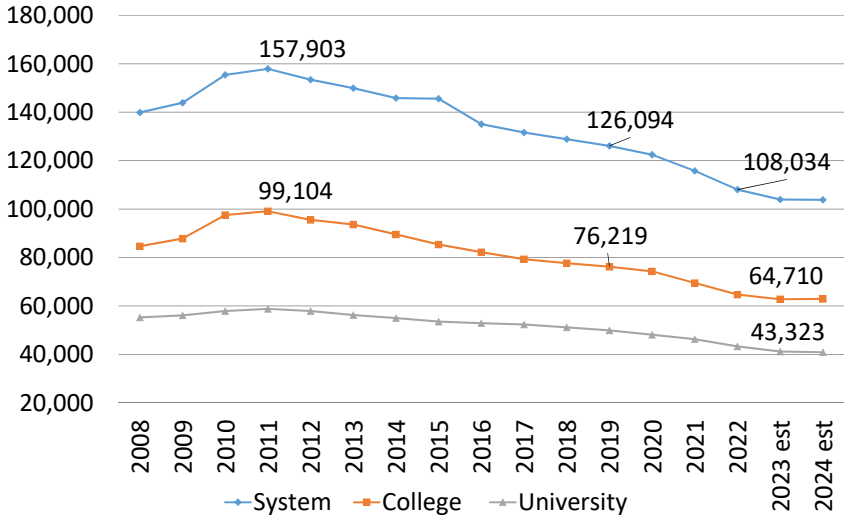
* Data in green excludes the effects of GASB 68/75 activity

OVERALL PICTURE

- Unmodified opinion on the systemwide, revenue fund, and Itasca student housing financial statements
- GASB 68/75 continues to have a substantial impact on the reported condition of the system colleges and universities
- Overall financial condition remained stable due to:
 - HEERF funding covering a portion of lost revenue that was due to declining enrollment and covering some expenses related to the pandemic
 - Management of overall operating expenses



STUDENT FULL YEAR EQUIVALENT (FYE) ENROLLMENT HISTORY & PROJECTIONS



HEERF EXPENSES/REVENUES FY2022 - FY2020

(\$ in Thousands)	
Fiscal Year	Expenses/ Revenues
FY2020	\$ 56,955
FY2021	162,115
FY2022	328,745
Total	\$ 547,815

- Remaining HEERF funds to be received and spent in fiscal year 2023 are approximately \$60M

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SYSTEMWIDE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Revenues, Expenses and Net Position (\$ in Thousands)			
Fiscal Year	FY2022	FY2021	FY2020
Total Revenues	\$2,292,711	\$2,087,036	\$2,114,724
Total Expenses	2,036,082	2,076,496	2,088,956
Change in Net Position	\$256,629	\$10,540	\$25,768

- Total revenues increased in fiscal year 2022 by \$205.7M
- Total expenses decreased in fiscal year 2022 by \$40.4M primarily due to a \$232.5M decrease in compensation expense coupled with a \$127.4M increase in financial aid expense
- Excluding GASB 68/75, total expenses increased by \$169.1M which is primarily due to increase of HEERF financial aid disbursements to students
- Excluding GASB 68/75 effect, fiscal year 2022 resulted in a \$60.5M increase to net position in FY2022 compared to a \$23.9M increase in FY2021

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CHANGES IN NET POSITION FY2022 - FY2020

Revenues/(Expense) (in Thousands)

Components and changes	FY2022	FY2021	FY2020
Revenue from students, net of financial aid	\$ 737,140	\$ 730,373	\$ 774,502
State appropriation revenue	795,315	767,931	762,135
Federal and state grant revenue	678,075	504,990	442,482
Compensation Expense	(1,179,090)	(1,411,613)	(1,420,716)
All other revenues/(expenses), net	(774,811)	(581,141)	(532,635)
Change in Net Position	\$ 256,629	\$ 10,540	\$ 25,768

- Compensation expense decrease in fiscal year 2022 includes a decrease of \$197.8M, or 14.0 percent, related to GASB Statements No. 68 & 75
- Excluding GASB 68/75 effect, the change in fiscal year 2022 compensation expense was a decrease of \$21.3M, or 1.5 percent

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SYSTEMWIDE STATEMENTS OF NET POSITION

Assets, Liabilities and Net Position (\$ in Thousands)

Fiscal Year	FY2022	FY2021	FY2020
Total Assets	\$3,349,466	\$3,320,668	\$3,302,097
Deferred Outflows of Resources	235,309	163,598	381,278
Total Assets and Deferred Outflows of Resources	3,584,775	3,484,266	3,683,375
Total Liabilities	1,102,928	1,324,980	1,326,134
Deferred Inflows of Resources	572,695	506,763	715,258
Total Liabilities and Deferred Inflows of Resources	1,675,623	1,831,743	2,041,392
Total Net Position	\$1,909,152	\$1,652,523	\$1,641,983

- Total assets remained relatively stable, increasing by \$28.8M, or 0.9 percent in fiscal year 2022
- Total liabilities decreased in fiscal year 2022 by \$222.1M, or 16.8 percent following a \$1.2M decrease in fiscal year 2021
 - Long term obligations decreased \$47.3M in fiscal year 2022
 - Net pension liability decreased by \$193.9M in fiscal year 2022

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FISCAL YEARS ADJUSTED FOR LONG-TERM PENSION AND OPEB REPORTING REQUIREMENTS

- Significant adjustments in FY2022
 - FY2022 operating results
 - FY2022 balance sheet
- Impact will continue with all future statements, introducing volatility to the accrual based results
- The impact is distributed across all colleges and universities based on attribution assumptions

GASB STATEMENTS NO. 68 AND NO. 75 EFFECT

- GASB 68 and GASB 75 have 4 components on the Statements of Net Position

GASB STATEMENTS NO. 68 AND NO. 75 EFFECT (\$ in Thousands)

Fiscal Year	FY2022	FY2021
Net Pension Liability	\$ 150,831	\$ 344,746
Other compensation benefits	71,437	67,263
Deferred inflow of resources	555,178	489,638
Deferred outflows of resources	(233,706)	(161,775)
Total downward impact on net position	\$ 543,740	\$ 739,872

SYSTEMWIDE NET POSITION (UNRESTRICTED)

Unrestricted Net Position (\$ in Thousands)			
Components and changes	FY2022	FY2021	Change
Unrestricted net position balance at June 30	\$ 266,561	\$ (4,389)	\$ 270,950
Removing GASB Statements 68/75 impact	543,740	739,872	(196,132)
Balance at June 30, without effect of GASB Stmts 68/75	\$ 810,301	\$ 735,483	\$ 74,818

- Increase in unrestricted net position was \$74.8M in fiscal year 2022
- Increase is primarily attributable to:
 - HEERF funding provided to reduce the need to utilize college and university fund balances for pandemic related expenses

REVENUE FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Revenues, Expenses and Net Position (\$ in Thousands)			
Fiscal Year	FY2022	FY2021	FY2020
Total Revenues	\$104,904	\$104,087	\$107,409
Total Expenses	99,955	101,269	109,096
Change in Net Position	\$4,949	\$2,818	(1,687)

- Total revenues were nearly identical to fiscal year 2021 levels increasing by \$0.8M in fiscal year 2022
 - Revenues shifted from non-operating HEERF revenue in fiscal year 2021 to operating revenues in fiscal year 2022 as revenue fund activity increased
- Excluding GASB 68/75, total expenses increased by \$3.2M or 3.2 percent in fiscal year 2022
- Excluding GASB 68/75 effect, the result is a \$0.7M increase in net position in fiscal year 2022 compared to a \$3.1M increase in FY2021

REVENUE FUND STATEMENTS of NET POSITION

Assets, Liabilities and Net Position (\$ in Thousands)			
Fiscal Year	FY2022	FY2021	FY2020
Total Assets	\$494,103	\$522,753	\$537,354
Deferred Outflows of Resources	6,060	4,333	8,877
Total Assets and Deferred Outflows of Resources	500,163	527,086	546,231
Total Liabilities	230,773	263,754	286,039
Deferred Inflows of Resources	14,708	13,599	13,277
Total Liabilities and Deferred Inflows of Resources	245,481	277,353	299,316
Total Net Position	\$254,682	\$249,733	\$246,915

- Total assets decreased \$28.6M in FY2022 following a \$14.6M decrease in FY2021
- Total liabilities decreased in FY2022 by \$33.0M following a \$22.3M decrease in FY2021
 - Long-term obligations decreased by \$29.1M in FY2022
 - Net pension liability decreased by \$3.5M in FY2022

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SUMMARY FINANCIAL RESULTS

(EXCLUDING THE EFFECTS of GASB 68 & 75)

- Excluding the effects of GASB 68 & 75, the system reports a \$25.1M gain, an improvement of \$31.7M from FY2021
- Excluding the effects of GASB 68 & 75, total operating/nonoperating expenses increased primarily due to increase of HEERF financial aid disbursements to students
- Adjusted operating margins remained close to “breakeven” in both FY2022 and 2021
 - FY22 operating margin of \$25.1M or 1.1% of operating expenses
 - FY21 operating margin of \$(6.6M) or (0.3%) of operating expenses

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OVERALL PICTURE

- Unmodified opinion on the systemwide, revenue fund, and Itasca student housing financial statements
- GASB 68/75 continues to have a substantial impact on the reported condition of the system colleges and universities
- Overall financial condition remained stable due to:
 - HEERF funding covering a portion of lost revenue that was due to declining enrollment and covering some expenses related to the pandemic
 - Management of overall operating expenses